

Message Text

CONFIDENTIAL

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6704

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L MANILA 09326

LIMDIS

EA ONLY

E.O. 11652: GDS

TAGS: EFIN. EAID, ETRD, ASEAN, JA, RP

SUBJECT: JAPANESE AID UNTYING AND YEN CREDITS

REF: (A) STATE 131106, (B) TOKYO 9671

1. SUMMARY. JAPANESE EMBASSY IN MANILA HAS TOLD US IN CONFIDENCE THAT THE GOJ WILL UNTIE COMPLETELY ITS SEVENTH YEN CREDIT OF 30 BILLION TO THE PHILIPPINES. IT ASKS THAT WE HOLD BACK FROM ANY APPROACH TO THE GOP FOR THE TIME BEING. WE STRONGLY RECOMMEND THAT WE RESPECT ITS CONFIDENCE AND REQUEST, FOR THE SUCCESSFUL UNTYPING OF THE PHILIPPINE LOAN WILL ASSIST THE GAIMUSHO TO WIN OVER MITI IN ITS CAMPAIGN TO UNTIE ALL JAPANESE AID. END SUMMARY.

2. WHEN WE CONSULTED WITH OUR JAPANESE EMBASSY COLLEAGUE REGARDING OUR APPROACH TO THE GOP ON UNTYING JAPANESE AID, HE ASKED THAT WE DELAY OUR APPROACH UNTIL HE COULD OBTAIN FRESH INSTRUCTIONS FROM TOKYO. REASON IS THAT THE GOJ -- THAT IS, ALL FOUR CONCERNED MINISTRIES OR MOFA, MOF, MITI AND EPA -- HAS DECIDED TO UNTIE COMPLETELY THE SEVENTH CONFIDENTIAL

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YEN CREDIT TO THE PHILIPPINES.

3. JAPANESE EMBASSY HAD LONG RECOMMENDED THAT AID BE UNTIED BECAUSE OF THE "GRAY AND DARK SIDE" OF JAPANESE AID TO THE PHILIPPINES. IT BELIEVED STRONGLY THAT THE PROBLEM HAD TO BE RESOLVED AND THAT UNTYING AND COMPETITIVE BIDDING WOULD BE ONE MEASURE TO THAT END. ITS MOTIVATION

WAS SHARED STRONGLY BY SECRETARY OF FINANCE VIRATA WHO FELT THAT ELIMINATING THE KICKBACKS WOULD MAKE JAPANESE AID MORE EFFICIENT AND RATIONAL. VIRATA APPARENTLY SUCCEEDED IN OBTAINING A GOP POSITION AND AT THE RECENT ADB ANNUAL MEETING IN VIENNA MET WITH THE DG OF THE ECONOMIC COOPERATION BUREAU OF THE GAIMUSHO AND REQUESTED THAT JAPANESE AID BE UNTIED.

4. GOJ AND GOP OFFICIALS ARE NOW IN THE FINAL STAGES OF NEGOTIATIONS OVER THE SEVENTH YEN CREDIT WHICH WOULD AMOUNT TO OVER 30 BILLION YEN. GOJ IS HOLDING TIGHTLY ITS DECISION TO UNTIE THIS LOAN AND DOES NOT WISH TO ANNOUNCE IT UNTIL THE LOAN IS SIGNED IN AUGUST. UNTYING APPLIES ONLY TO PHILIPPINE LOAN, AND MITI IS STILL RESISTING UNTYING OF LOANS TO OTHER COUNTRIES.

5. EMBOFF TOLD JAPANESE COLLEAGUE THAT WE CERTAINLY DO NOT REPEAT NOT WISH TO HINDER OR INTERFERE WITH GAIMUSHO'S CAMPAIGN TO UNTIE JAPANESE AID. THERE IS ALSO NO REASON FOR AN APPROACH TO THE GOP SINCE THE GOJ HAS ALREADY DECIDED TO UNTIE THE SEVENTH YEN CREDIT. WE WILL THEREFORE RECOMMEND TO WASHINGTON THAT WE HOLD OFF.

6. COMMENT. WE RECOMMEND THAT WE RESPECT THE CONFIDENCE AND REQUEST OF THE JAPANESE EMBASSY TO HOLD OFF FOR THE TIME BEING. THERE IS MUCH MORE AT STAKE THAN THE PHIL-
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IPPINE LOAN. WE WILL THEREFORE MAKE CONTACT WITH THE LOCAL OECF DIRECTOR BUT WILL NOT START ANY COOPERATIVE ALERT PROGRAM UNTIL THE LOAN IS ANNOUNCED. END COMMENT.
MURPHY

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